
CAPITAL DIRECT I INCOME TRUST

Financial Statements

Year Ended December 31, 2017

CAPITAL DIRECT I INCOME TRUST
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Year Ended December 31, 2017

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INDEPENDENT AUDITOR'S REPORT

To the Unitholders of Capital Direct I Income Trust

We have audited the accompanying financial statements of Capital Direct I Income Trust, which comprise the statement of financial position as at December 31, 2017 and the statements of comprehensive income, changes in net assets attributable to unitholders and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Capital Direct I Income Trust as at December 31, 2017 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Johnsen Archer LLP

Vancouver, B.C.
February 15, 2018

CHARTERED PROFESSIONAL ACCOUNTANTS

300 - 7485 130TH STREET, SURREY, BC, CANADA V3W 1H8 • TEL 604.501.2822 FAX 604.501.2832

WWW.JOHNSENARCHER.CA

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CAPITAL DIRECT I INCOME TRUST
Statement of Financial Position
December 31, 2017

	2017	2016
ASSETS		
Current assets		
Cash	\$ 4,004,562	\$ 1,982,407
Accounts receivable	3,223,329	5,226,932
Assets held for sale (Note 4)	88,282	-
Mortgage investments, current portion (Note 5)	78,535,020	48,072,740
	85,851,193	55,282,079
Mortgage investments, net of current portion (Note 5)	87,078,656	99,048,307
	\$172,929,849	\$154,330,386
LIABILITIES AND NET ASSETS		
Current liabilities		
Loan payable (Note 7)	\$ 38,915,187	\$ 44,018,502
Accounts payable and accrued liabilities	5,242,910	3,606,666
	44,158,097	47,625,168
Net assets attributable to unitholders (Note 9)	128,771,752	106,705,218
	\$172,929,849	\$154,330,386

Contingent liability (Note 7)

ON BEHALF OF THE MANAGER

CAPITAL DIRECT I INCOME TRUST
Statement of Changes in Net Assets Attributable to Unitholders
Year Ended December 31, 2017

	Class A	Class C	Class F	2017	2016
Net assets attributable to unitholders at beginning of year	\$ 54,491,226	\$ 13,580,447	\$ 38,633,545	\$ 106,705,218	\$ 53,382,064
Comprehensive income	4,588,000	1,270,422	4,421,207	10,279,629	7,339,429
	59,079,226	14,850,869	43,054,752	116,984,847	60,721,493
Distribution to unitholders	(4,129,198)	(1,143,381)	(3,979,087)	(9,251,666)	(6,075,876)
Distribution to the manager	(458,800)	(127,042)	(442,121)	(1,027,963)	(1,263,553)
Subscriptions	6,614,437	4,841,059	12,465,247	23,920,743	52,793,903
Reinvested distributions	2,504,285	789,253	2,261,113	5,554,651	3,739,538
Interchanges	(2,010,381)	(370,606)	2,380,987	-	-
Redemptions	(3,050,663)	(1,558,800)	(2,799,397)	(7,408,860)	(3,210,287)
Net assets attributable to unitholders at end of year	\$ 58,548,906	\$ 17,281,352	\$ 52,941,494	\$ 128,771,752	\$ 106,705,218

CAPITAL DIRECT I INCOME TRUST
Statement of Comprehensive Income
Year Ended December 31, 2017

	2017	2016
Revenue		
Interest income	\$ 13,802,934	\$ 9,857,086
Other income	1,537,565	1,185,920
	15,340,499	11,043,006
General and administrative expenses		
Bank charges	378,936	188,392
Interest on loan payable	1,510,707	1,163,928
Management fees	1,894,574	1,282,154
Professional fees	178,633	488,893
Provision for loan losses	971,133	477,919
Trustee and registrar fees	126,887	102,291
	5,060,870	3,703,577
Profit and comprehensive income for the year	\$ 10,279,629	\$ 7,339,429

CAPITAL DIRECT I INCOME TRUST
Statement of Cash Flows
Year Ended December 31, 2017

	2017	2016
Operating activities		
Profit for the year	\$ 10,279,629	\$ 7,339,429
Item not affecting cash:		
Provision for loan losses	971,133	477,919
	11,250,762	7,817,348
Changes in non-cash working capital:		
Accounts receivable, net of subscriptions	(1,719,337)	84,293
Accounts payable and accrued liabilities, net of redemptions	481,904	516,919
	(1,237,433)	601,212
Cash flow from operating activities	10,013,329	8,418,560
Investing activity		
Purchase of mortgage investment, net	(19,552,044)	(58,926,037)
Financing activities		
Distributions to unitholders, net of distributions reinvested	(3,697,015)	(2,336,338)
Distribution to the manager	(1,027,963)	(1,263,553)
Cash received on subscriptions	27,643,683	49,218,773
Redemptions	(6,254,520)	(1,722,057)
Loan payable	(5,103,315)	8,398,953
Cash flow from financing activities	11,560,870	52,295,778
Increase in cash	2,022,155	1,788,301
Cash - beginning of year	1,982,407	194,106
Cash - end of year	4,004,562	1,982,407
Supplementary information		
Interest received	\$ 12,716,197	\$ 9,637,016
Interest paid	\$ 1,510,707	\$ 1,163,928
Non-cash transaction - reduction in mortgage investments due to realization of security (Note 4)	\$ 88,282	\$ -

CAPITAL DIRECT I INCOME TRUST
Notes to Financial Statements
Year Ended December 31, 2017

1. ORGANIZATION OF THE TRUST

Capital Direct I Income Trust (the "Trust") is an open-ended investment trust established under the laws of the Province of Ontario pursuant to a Declaration of Trust dated June 23, 2006, as amended from time to time, by Capital Direct Management Ltd. (the "Manager") as administrator of the Trust and Computershare Trust Company of Canada (the "Trustee"). The address of the Trust's principal place of business is #305 - 555 West 8th Avenue, Vancouver, B.C. V5Z 1C6.

The Trust is a non-reporting issuer under securities legislation and therefore is relying on Part 2.11 of National Instrument 81-106 for exemption from the requirements to file annual financial statements with the applicable regulatory authorities.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

These audited annual financial statements, including comparatives, are prepared in accordance with International Financial Reporting Standards ("IFRS") as published by the International Accounting Standards Board ("IASB") and interpreted by the International Financial Reporting Interpretations Committee ("IFRIC").

These financial statements have been prepared on the basis of historical cost, except for financial instruments classified as fair value through profit and loss, which are measured at fair value.

These financial statements are presented in Canadian dollars, which is the Trust's functional currency.

These annual financial statements for the year ended December 31, 2017 were authorized for issuance by the Manager on February 15, 2018.

Significant accounting estimates and judgements

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Such estimates include valuation of accounts receivable, assets held for sale, the provision for loan losses, and completeness of accrued liabilities. These estimates are periodically reviewed and any adjustments necessary are reported in earnings in the period in which they become known. Actual results could differ from these estimates.

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CAPITAL DIRECT I INCOME TRUST
Notes to Financial Statements
Year Ended December 31, 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments

Recognition and measurement

The Trust recognizes financial assets and financial liabilities, including derivatives and embedded derivatives, on the balance sheet when the Trust becomes party to the contractual provisions of the financial instruments or non-financial derivative contract. The Trust classifies all financial assets and financial liabilities as either a) Held for trading, b) Available for sale, c) Held to maturity, d) Loans and receivables or e) Other financial liabilities, depending on the Trust's stated intention and/or historical practice. Financial assets and liabilities held for trading are measured at fair value with gains and losses recognized in profit or loss. Financial assets held to maturity, loans and receivables, and other financial liabilities other than those held for trading, are measured at fair value on initial recognition and subsequently at amortized cost based on the effective interest method. Available for sale instruments are measured at fair value with gains and losses, net of tax, recognized in other comprehensive income.

The Trust's financial assets and liabilities are classified as follows:

	<u>Category</u>	<u>Measurement</u>
Assets:		
Cash	Loans and receivables	Amortized cost
Accounts receivable	Loans and receivables	Amortized cost
Mortgage investments	Loans and receivables	Amortized cost
Liabilities:		
Loan payable	Other financial liabilities	Amortized cost
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost

Comprehensive income

Comprehensive income consists of profit and other comprehensive income ("OCI"). OCI comprises the change in fair value of the effective portion of the derivatives used as hedging items in a cash flow hedge and the change in fair value of any available for sale financial instruments. Amounts included in OCI are shown net of tax. Accumulated other comprehensive income is an equity category comprised of the cumulative amounts of OCI.

The Trust had no "other comprehensive income or loss" transactions during the year ended December 31, 2017 (2016: \$nil) and no opening or closing balances for accumulated other comprehensive income or loss.

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CAPITAL DIRECT I INCOME TRUST
Notes to Financial Statements
Year Ended December 31, 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Fair value measurement

The Trust measures financial instruments at fair value on initial recognition. Management estimates fair value in accordance with IFRS 13, Fair Value Measurement, as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of a liability reflects the effect of non-performance risk, which includes the Trust's own credit risk and any other factors that might influence the likelihood the obligation may not be fulfilled. The fair value of a liability with a demand feature is not less than the amount that could be demanded, discounted from the first date demand could be required. Where fair value may not be determined based on comparable instruments trading in a public market, it is estimated based on observable inputs, to the extent they are available.

Redeemable units

The Trust's redeemable units entitle the holders to redeem their interest in the Trust for cash at \$10 per unit, amongst other contractual rights. These redeemable units involve contractual obligations on the part of the Trust and therefore meet the criteria for classification as financial liabilities. The Trust's obligation for net assets attributable to unitholders is measured at amortized cost, which is equal to the redemption amount as of the reporting date.

Mortgage investments

Mortgage investments are measured at amortized cost using the effective interest method, net of an allowance for losses.

Interest income from mortgage investments is recorded on an accrual basis, except for mortgage investments that are considered to be impaired. A mortgage investment is classified as impaired when, in management's opinion, there is reasonable doubt as to the ultimate collectibility, either in whole or in part, of principal and interest. When a mortgage investment is classified as impaired, recognition of interest in accordance with the term of the original mortgage investment agreement ceases. Subsequent payments received on an impaired mortgage investment are recorded as a reduction in principal. Mortgage investments are generally returned to accrual status when the timely collection of both principal and interest is reasonably assured and all delinquent principal and interest payments are brought current.

Mortgage discount income is deferred and recognized over the term of the underlying mortgage. Other fees are recognized as the services are performed.

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CAPITAL DIRECT I INCOME TRUST
Notes to Financial Statements
Year Ended December 31, 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

Provision for loan losses

The Trust maintains an allowance for losses in its mortgage investment portfolio. The provision for loan losses is increased by a provision for mortgage investment impairment charged to income and reduced by write-offs during the year.

A loan is considered to be impaired when payments are in arrears over 120 days, all attempts at recovery with the mortgagee have failed and the Trust enters the foreclosure process to recover the loan balance. A specific provision is recorded to the extent the fair value of the collateral charged against the loan does not exceed the loan balance. Interest income continues to be accrued until the receiver begins selling the property. Legal fees and other costs are also accrued to the loan balance to the extent they are expected to be recovered.

The Trust also incorporates mortgage investment loss history as the basis for estimating probability of default in mortgage investments. The Trust groups all unimpaired loans according to similar credit risk characteristics, and evaluates the likelihood of an impairment loss on each group on an aggregate basis. The Trust records a loss provision allowance based on specific loans identified as impaired as well as the credit quality of each group of loans with such similar characteristics.

Assets held for sale

A long lived asset is classified as held for sale when the Manager commits to a plan to sell, it is available for sale in its present condition, an active program to locate a buyer has been initiated, the sale is probable and expected to complete within a year, it is being actively marketed for sale, and there are unlikely to be significant changes to the plan of sale. Assets held for sale are measured at their estimated fair value less costs to sell. Fair value is estimated based on comparison to recent sales of properties of similar type, location, and quality.

Income taxes

The Trust qualifies as a "Mutual Fund Trust" within the meaning of the Income Tax Act (Canada) (the "Act"). The Trust is subject to applicable federal and provincial taxes on its net income for tax purposes for the year, including taxable capital gains, except to the extent such amounts are distributed to unitholders. Losses incurred by the Trust cannot be allocated to unitholders, but may be deducted by the Trust in future years in accordance with the Act.

Because the Trust is contractually obligated to distribute all income, and such distributions are eligible for deduction against taxable income, the Trust does not recognize a deferred tax asset or liability for any temporary differences.

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CAPITAL DIRECT I INCOME TRUST
Notes to Financial Statements
Year Ended December 31, 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

Standards issued but not yet effective

As at December 31, 2017, the following standards have been issued by the IASB but are not yet effective for these financial statements, and are relevant to the Trust as set out below.

IFRS 9: Financial instruments

IFRS 9, Financial instruments, deals with classification and measurement of financial assets and is effective for reporting periods beginning on or after January 1, 2018. The requirements of the standard represent a significant change from the existing requirements in IAS 39 in respect of financial assets. The standard contains three measurement categories for financial assets: amortized cost, fair value through OCI, and fair value through profit and loss. A financial asset would be measured at amortized cost if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, and the asset's contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding. It is the Manager's opinion that the mortgage investments would continue to be measured at amortized cost. Financial liabilities will continue to be measured at amortized cost.

IFRS 9 presents a new impairment model based on expected credit losses on a 12-month basis, and on a long term basis where credit quality of a loan receivable has declined. The Trust's current impairment model considers historical patterns and events which indicate that future cash flows may decline. Losses expected as a result of future events, no matter how likely, are not recognized. The new standard, in contrast, requires the Trust to assess 12-month expected credit losses on all financial assets. If the credit risk of a financial asset has increased significantly since its inception, the Trust will be required to provide an allowance for lifetime expected credit losses. Because the mortgage loans are secured by properties whose appraised value exceeds loan value at inception, expected credit losses are generally considered to be low. However this change in accounting may require the Trust to recognize impairment on loans in arrears more quickly and for larger amounts. Under IAS 39 the Trust has taken a conservative position with respect to loan losses and therefore does not expect material adjustments to prior period figures on adoption of IFRS 9.

Mortgage loans include a prepayment option with a penalty to compensate the Trust for lost interest on a loan repaid early. Under IAS 39 this prepayment option was considered an embedded derivative; however the Trust considered the option to be closely related to the mortgage loan contract and therefore did not separate the derivative prepayment option from the host contract mortgage agreement. Under IFRS 9 if an embedded derivative is part of a host contract which is a financial asset it is not separated from the asset in determining the appropriate accounting model for that asset. An amendment to IFRS 9, issued in October 2017 permits the prepayment option to be ignored in determining the accounting model for the financial asset if the entity acquires or originates the financial asset at a premium or discount, the prepayment amount represents compensation for unpaid interest (which may include a reasonable compensation for early termination) and the fair value of the prepayment feature is insignificant at the inception of the contract. The amendment is effective for fiscal years beginning on or after January 1, 2019, however the Trust has elected to adopt the amendment in the year ending December 31, 2018.

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CAPITAL DIRECT I INCOME TRUST
Notes to Financial Statements
Year Ended December 31, 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

IFRS 15: Revenue from contracts with customers

IFRS 15, Revenue from contracts with customers, is a new standard that outlines a single comprehensive framework for entities to use in accounting for revenue arising from contracts with customers. It supercedes current revenue recognition guidance including IAS 18, Revenue and IAS 11, Construction contracts and related Interpretations and is effective for annual reporting periods beginning on or after January 1, 2018.

The core principle of IFRS 15 is that an entity will recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The Trust does not expect a significant impact on these financial statements upon adoption of IFRS 15.

3. TAXATION

Under the specified investment flow-through trust or partnership ("SIFT") rules, certain distributions from a SIFT will no longer be deductible in computing a SIFT's taxable income and a SIFT will be subject to tax on such distributions at a rate that is substantially equivalent to the general tax rate applicable to a Canadian corporation. Distributions paid by a SIFT as returns of capital will not be subject to the tax.

The Trust is not subject to the SIFT tax regime since units of the Trust are not listed on a stock exchange or other public market. Accordingly, the Trust has not recorded a provision for income taxes or deferred income tax in respect of the SIFT Rules.

4. ASSETS HELD FOR SALE

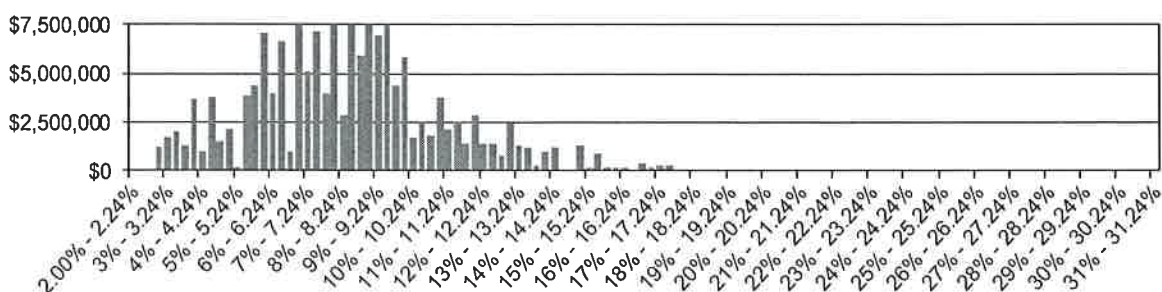
The asset held for sale is a residential property which had been pledged as collateral for a mortgage loan receivable. The property was repossessed by the Trust as the mortgage investment it had secured was in arrears and all attempts at collection from the borrower had been exhausted. The Trust expects to recover an amount approximately equal to the amount of the outstanding mortgage balance less costs to sell. Management estimated costs to sell to be approximately \$20,000, which has been recorded in the statement of operations.

CAPITAL DIRECT I INCOME TRUST
Notes to Financial Statements
Year Ended December 31, 2017

5. MORTGAGE INVESTMENTS

Interest rates vary on the mortgages as noted below. The weighted average interest rate for the year was 8.34% (2016: 7.99%).

Interest Rate	# of Loans	Carrying Value	Interest Rate	# of Loans	Carrying Value
2.75 - 2.99%	7	\$ 1,273,232	13.00 - 13.24%	10	\$ 1,303,643
3.00 - 3.24%	8	\$ 1,774,513	13.25 - 13.49%	11	\$ 1,260,918
3.25 - 3.49%	15	\$ 2,005,153	13.50 - 13.74%	7	\$ 295,536
3.50 - 3.74%	5	\$ 1,321,006	13.75 - 13.99%	8	\$ 974,164
3.75 - 3.99%	21	\$ 3,740,002	14.00 - 14.24%	12	\$ 1,202,841
4.00 - 4.24%	5	\$ 1,008,721	14.25 - 14.49%	2	\$ 89,481
4.25 - 4.49%	16	\$ 3,750,864	14.50 - 14.74%	4	\$ 138,542
4.50 - 4.74%	8	\$ 1,561,136	14.75 - 14.99%	15	\$ 1,356,383
4.75 - 4.99%	10	\$ 2,200,932	15.00 - 15.24%	5	\$ 226,816
5.00 - 5.24%	2	\$ 239,505	15.25 - 15.49%	11	\$ 927,483
5.25 - 5.49%	20	\$ 3,945,791	15.50 - 15.74%	6	\$ 242,475
5.50 - 5.74%	17	\$ 4,368,177	15.75 - 15.99%	2	\$ 156,555
5.75 - 5.99%	39	\$ 7,062,523	16.00 - 16.24%	4	\$ 251,136
6.00 - 6.24%	26	\$ 4,029,604	16.25 - 16.49%	2	\$ 34,668
6.25 - 6.49%	49	\$ 6,674,239	16.50 - 16.74%	4	\$ 383,336
6.50 - 6.74%	10	\$ 976,838	16.75 - 16.99%	5	\$ 191,020
6.75 - 6.99%	81	\$ 9,142,770	17.00 - 17.24%	3	\$ 277,743
7.00 - 7.24%	48	\$ 5,159,306	17.25 - 17.49%	4	\$ 298,829
7.25 - 7.49%	66	\$ 7,152,853	17.50 - 17.74%	3	\$ 76,346
7.50 - 7.74%	37	\$ 4,008,360	18.00 - 18.24%	2	\$ 62,679
7.75 - 7.99%	92	\$ 9,458,140	18.25 - 18.49%	3	\$ 89,883
8.00 - 8.24%	37	\$ 2,868,267	18.50 - 18.74%	5	\$ 129,333
8.25 - 8.49%	80	\$ 8,061,871	18.75 - 18.99%	3	\$ 78,278
8.50 - 8.74%	63	\$ 5,929,348	19.00 - 19.24%	4	\$ 105,666
8.75 - 8.99%	91	\$ 8,814,591	19.25 - 19.49%	1	\$ 107,968
9.00 - 9.24%	50	\$ 6,934,864	19.50 - 19.74%	2	\$ 152,915
9.25 - 9.49%	71	\$ 8,108,160	19.75 - 19.99%	1	\$ 23,967
9.50 - 9.74%	40	\$ 4,379,485	20.00 - 20.24%	1	\$ 39,755
9.75 - 9.99%	66	\$ 5,866,774	20.25 - 20.49%	1	\$ 14,173
10.00 - 10.24%	18	\$ 1,783,786	20.50 - 20.74%	1	\$ 26,251
10.25 - 10.49%	28	\$ 2,527,585	20.75 - 20.99%	1	\$ 21,935
10.50 - 10.74%	23	\$ 1,860,284	21.00 - 21.24%	1	\$ 30,318
10.75 - 10.99%	42	\$ 3,782,129	21.25 - 21.49%	1	\$ 22,175
11.00 - 11.24%	26	\$ 2,191,848	21.50 - 21.74%	1	\$ 29,217
11.25 - 11.49%	30	\$ 2,602,067	21.75 - 21.99%	1	\$ 35,184
11.50 - 11.74%	20	\$ 1,403,456	22.00 - 22.24%	1	\$ 9,714
11.75 - 11.99%	32	\$ 2,902,257	22.25 - 22.49%	1	\$ 10,827
12.00 - 12.24%	11	\$ 1,389,356	22.50 - 22.74%	1	\$ 22,330
12.25 - 12.49%	19	\$ 1,463,624	22.75 - 22.99%	1	\$ 17,254
12.50 - 12.74%	13	\$ 774,187			
12.75 - 12.99%	25	\$ 2,420,699			
				1,518	\$ 167,636,039



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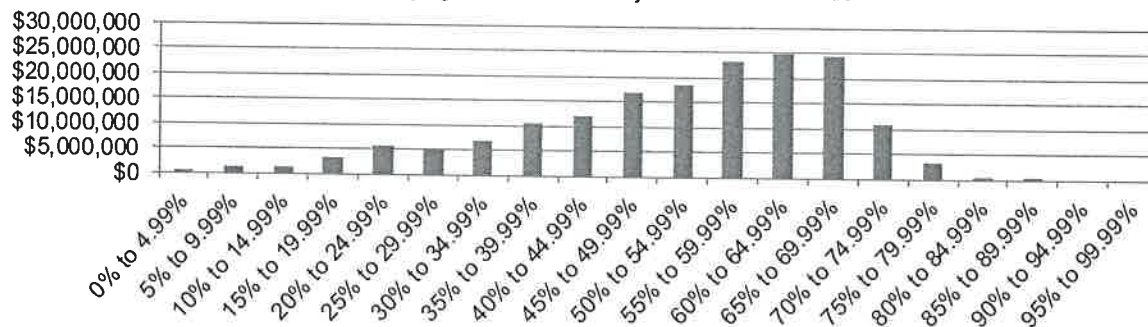
CAPITAL DIRECT I INCOME TRUST
Notes to Financial Statements
Year Ended December 31, 2017

5. MORTGAGE INVESTMENTS (continued)

Mortgage investments consist of residential mortgages acquired from Capital Direct Lending Corp., the parent company of the Manager, and Capital Direct Atlantic Inc., a subsidiary of Capital Direct Lending Corp. The Trust has insured no mortgages under the National Housing Act (Canada). Loan to value ratios on the mortgages vary as noted below. The weighted average loan to value ratio as at December 31, 2017 was 53% (2016: 54%). Balances shown include accrued interest receivable totalling \$856,164 (2016: \$712,818).

Loan to Value Ratio	Number of Loans	Carrying Value
0.00 - 4.99%	11	\$ 234,320
5.00 - 9.99%	24	1,195,131
10.00 - 14.99%	20	1,450,692
15.00 - 19.99%	36	3,254,353
20.00 - 24.99%	56	5,640,611
25.00 - 29.99%	45	5,527,461
30.00 - 34.99%	63	6,997,335
35.00 - 39.99%	77	10,515,182
40.00 - 44.99%	107	12,038,780
45.00 - 49.99%	155	16,826,215
50.00 - 54.99%	156	18,360,793
55.00 - 59.99%	197	23,209,680
60.00 - 64.99%	207	24,809,255
65.00 - 69.99%	217	23,602,772
70.00 - 74.99%	98	10,672,287
75.00 - 79.99%	48	3,250,277
80.00 - 84.99%	1	50,895
85.00 - 89.99%	0	-
90.00 - 94.99%	0	-
95.00 - 99.99%	0	-
	1,518	\$ 167,636,039
Loan loss provision		(1,013,638)
Deferred mortgage discount income		(1,008,725)
		\$ 165,613,676

Carrying Value of Loans by Loan to Value Ratio



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CAPITAL DIRECT I INCOME TRUST
Notes to Financial Statements
Year Ended December 31, 2017

5. MORTGAGE INVESTMENTS (continued)

Changes in the loan provision during the year were as follows:

	2017	2016
Opening balance	\$ 536,762	\$ 713,591
Provision for the year	971,133	477,919
Loans written off	(494,257)	(654,748)
Ending balance	\$ 1,013,638	\$ 536,762

The mortgages typically have an original maturity ranging from 12 to 24 months and rank in position of collateral from first to third. Mortgages mature as follows:

	2017	2016
12 months or less	\$ 78,535,020	\$ 48,072,740
13 to 24 months	87,078,656	99,048,307
Total	\$167,613,676	\$147,121,047

The carrying amount of mortgages 30 to 59 days in arrears total \$7,913,825 (2016: \$6,181,123); 60 to 89 days in arrears total \$2,355,663 (2016: \$1,367,825); 90 to 119 days in arrears total \$2,188,174 (2016: \$1,034,026); and 120 days or more in arrears total \$6,697,462 (2016: \$3,526,766). Impairment losses are recorded only once loans are 120 days or more in arrears.

6. FINANCIAL INSTRUMENTS

a) Fair value of financial assets and liabilities

The following table details carrying values and fair values of financial assets and financial liabilities by financial instrument classification. The Trust uses a fair value hierarchy to categorize the inputs used in valuation techniques to measure fair value. The use of quoted market prices (Level 1), internal models using observable market information as inputs (Level 2) and internal models without observable market information as inputs (Level 3) in the valuation of financial instruments for disclosure purposes was as summarized below.

(continues)

CAPITAL DIRECT I INCOME TRUST
Notes to Financial Statements
Year Ended December 31, 2017

6. FINANCIAL INSTRUMENTS (continued)

These fair values, presented for information purposes only, reflect conditions that existed only at the balance sheet date.

	2017			2016	
	<u>Carrying Value</u>	<u>Fair Value</u>	<u>Difference</u>	<u>Fair Value Hierarchy</u>	<u>Difference</u>
<u>Assets</u>					
Loans and receivables:					
Cash	\$ 4,004,562	\$ 4,004,562	\$ -	Level 1	\$ -
Accounts receivable	3,223,329	3,223,329	-	Level 3	-
Mortgage investments	165,613,676	165,613,676	-	Level 3	-
<u>Liabilities</u>					
Other financial liabilities:					
Loan payable	38,915,187	38,915,187	-	Level 2	-
Accounts payable and accrued liabilities	5,242,910	5,242,910	-	Level 3	-
			-		-
Net difference			\$ -		\$ -

There is no quoted price in an active market for mortgage investments. As such the Manager estimates the fair value of mortgage investments based on its assessment of the current lending market for mortgage investments of same or similar terms. Fair value has been estimated using discounted cash flow techniques based on interest rates being offered for similar types of assets with similar terms and risks as at the balance sheet date. As a result the fair value of mortgage investments is based on Level 3 inputs.

The fair values of other financial assets and financial liabilities are assumed to approximate their carrying values, principally due to their short term or demand nature.

There were no transfers between Level 1, Level 2, and Level 3 during the year ended December 31, 2017.

b) Risk management

Risk management involves the identification, ongoing assessment, managing and monitoring of material risks that could adversely affect the Trust. The Trust is exposed to credit risks, liquidity risk, market risk and interest rate risk.

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Notes to Financial Statements
Year Ended December 31, 2017

6. FINANCIAL INSTRUMENTS *(continued)*

Credit Risk

Credit risk is the risk that a financial loss will be incurred due to the failure of a counterparty to discharge its contractual commitment or obligation to the Trust. It is the Manager's opinion that the Trust is exposed to credit risks on all mortgage investments. The credit risk is mitigated as all mortgage investments are collateralized, there is no significant geographical concentration of mortgage investments, and the Manager regularly reviews and monitors the fair value of the collateral. The loss provision for the mortgage investments is established based on a provision for identified specific mortgage investments and a general provision applied to loans with similar credit characteristics. The Manager has assessed that there are no specifically identified mortgage investments exposed to credit risks. The Manager has provided a loan loss provision based on approximately 0.61% (2016: 0.36%) of mortgage investments.

Management regularly reviews the mortgage listing for balances in arrears and follows up with clients as needed regarding payment. For individual accounts in arrears where discussion with the client has not succeeded, foreclosure proceedings commence. Balances receivable include accrued interest income and legal and other costs related to attempts at collection. The loans are collateralized by real property and losses are recognized to the extent that recovery of the balance through sale of the underlying property is not reasonably assured. As at December 31, 2017 management had identified loans totaling 3% (2016: 2%) of the portfolio in arrears over 120 days. Of these, \$3.5 million (2016: \$2.3 million) of loans have entered some form of legal proceedings in attempt to recover the balance. Management identified a loan loss provision of \$40,000 should be made for two specific loans totaling \$297,537 (2016: no specific provision).

As at December 31, 2017, the Trust has outstanding mortgages totalling \$79,435,878, or 48% (2016: \$75,804,451, or 52%) of the balance in British Columbia and \$75,510,965, or 46% (2016: \$57,298,542, or 39%) of the balance in Ontario. These loans are concentrated in Greater Vancouver Area and the Greater Toronto Area, respectively. The remaining mortgages are in Alberta and Atlantic Canada.

Liquidity Risk

Liquidity risk refers to the Trust's ability to meet its own financial obligations such as funding mortgage commitments, operational expenses, trust distributions, and unitholder redemptions. In this regard the Manager monitors cash regularly to ensure the Trust can meet its obligations, however the Manager does have the right to postpone redemptions if it feels that the Trust's financial position will become impaired. Contractual maturities of all financial liabilities are 12 months or less.

Market Risk

Market risk includes both interest rate risk and foreign currency risk. The interest rate risk relates to the Trust's ability to adjust to the changing interest rates on their loan payable (Note 7). To offset this risk the Trust generally lends its funds with rates adjustable within one or two years, which allows the Trust to adjust rates on renewals annually. There is no foreign exchange risk as the trust is limited to investing in mortgages denominated in Canadian dollars.

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CAPITAL DIRECT I INCOME TRUST
Notes to Financial Statements
Year Ended December 31, 2017

6. FINANCIAL INSTRUMENTS *(continued)*

It is estimated that a general 0.5% increase or decrease in market interest rates would have no impact on the mortgage investment income, due to the fixed nature of the interest rates being earned on the mortgage investments. It is estimated that an increase of 0.5% in the prime lending rate would result in an increase in interest expense on the loan payable of approximately \$174,000 (2016: \$139,000).

7. LOAN PAYABLE

The Trust has an operating line of credit with Canadian Western Bank to a maximum of \$50,000,000 (2016: \$50,000,000), subject to margin requirements on eligible mortgage investments, which bears interest at a rate of 0.75% per annum above the bank's prime lending rate. For the year ended, December 31, 2017, the bank's average prime lending rate was 2.91% per annum (2016: 2.70%). The line of credit is secured by a general security agreement including a fixed first charge over the real and personal property of the Trust, Capital Direct Lending Corp., and Capital Direct Management Ltd., a general assignment of mortgages agreement, and a general assignment of insurance.

Of the amount available above, up to \$2,500,000 (2016: \$nil) is available to Capital Direct Management Ltd., for which it has provided separate overdraft lending agreement to Canadian Western Bank. The outstanding balance in Capital Direct Management Ltd. as of December 31, 2017 is \$2,187,124, for which the Trust is contingently liable.

The line of credit is subject to certain financial covenants as outlined in Note 12. As at December 31, 2017, the Trust was in compliance with these covenants.

The maximum and minimum amounts borrowed during the year were \$44,149,128 (2016: \$45,267,747) and \$36,902,483 (2016: \$28,118,126) respectively.

8. RELATED PARTY TRANSACTIONS

During the year, the Trust purchased 99.4% (2016: 99.6%) of its mortgages with a face value totaling \$103,478,583 (2016: \$117,853,991) from Capital Direct Lending Corp. and 0.6% (2016: 0.4%) of its mortgages totalling \$674,200 (2016: \$439,800) from Capital Direct Atlantic Inc.

These transactions were conducted in the normal course of business and are recorded at the exchange amount being the consideration agreed to by the related parties.

CAPITAL DIRECT I INCOME TRUST
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Year Ended December 31, 2017

9. NET ASSETS ATTRIBUTABLE TO UNITHOLDERS

Pursuant to the Declaration of Trust, the Trust is authorized to issue an unlimited number of retractable, redeemable and transferable units, each of which represents an equal, undivided interest in any distributions made by the Trust and in the net assets of the Trust in the event of termination or windup. Each Unitholder is entitled to one vote for each whole unit held.

The Trust's current offering authorizes Class A, Class C and Class F redeemable units totalling 37,500,000 units for a combined maximum of \$375,000,000. Class A, Class C and Class F units are issued and redeemed as listed below.

Class A, Class C and Class F units share pro rata in distributions from the Trust. All classes of units are permitted to be retracted on June 30 or December 31 in any year by giving written notice to the Manager. Class C and Class F units may be retracted after 180 days with no penalty. Class A units bear a retraction fee which diminishes over 5 years from 5% to zero.

Prior to December 31, 2017, 331,284 (2016: 215,850) units were called for redemption. The redemption price of \$3,312,840 (2016: \$2,158,500) is accrued in accounts payable. 144,570 (2016: 516,864) redeemable units were issued for subscription prior to December 31, 2017 for which proceeds are receivable from brokers as at year end. The subscription price of \$1,445,700 (2016: \$5,168,640) is accrued in accounts receivable.

	Class A	Class C	Class F	Total
Units outstanding, beginning of period	5,449,122	1,358,045	3,863,354	10,670,521
Units issued on subscription	661,444	484,107	1,246,525	2,392,076
Units issued on reinvestment	250,428	78,925	226,111	555,464
Units interchanged	(201,038)	(37,061)	238,099	-
Units redeemed	(305,066)	(155,880)	(279,940)	(740,886)
Units outstanding, end of period	5,854,890	1,728,136	5,294,149	12,877,175
Net assets attributable to unitholders:	\$ 58,548,906	\$ 17,281,352	\$ 52,941,494	\$ 128,711,752
Net asset value per unit	\$ 10	\$ 10	\$ 10	\$ 10

During the year, 238,099 units were interchanged from Class A and Class C to Class F. The overall units outstanding and net assets of the Trust were not affected.

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Notes to Financial Statements
Year Ended December 31, 2017

10. DISTRIBUTIONS TO UNITHOLDERS

The Trust distributes 80% of the net income from operations to unitholders on a quarterly basis from investments held by the Trust. The quarterly distributions are paid in arrears on the 15th day following the first three calendar quarters and on March 31 following the fourth calendar quarter to which the distribution relates. Distributions by the Trust will be paid in cash unless the unitholder elects to receive distributions in the form of units.

The Manager has waived 50% of the distribution income to which it was entitled during the year ended December 31, 2017, thereby increasing the distributions to the unitholders to 90% of profit for the year.

11. MANAGEMENT FEES AND EXPENSES

Management fees and distributions

Pursuant to the management agreement between the Trust and the Manager, the Manager is to provide management, administration and investment advisory services to the Trust. For these services, the Manager will be entitled to receive a monthly fee (the "Manager's Fee") calculated and payable monthly in arrears based on an annual rate of 2% of the Class A net asset value plus 2% of the Class C net asset value plus 1% of the Class F net asset value. The total management fee for the year was \$1,894,574 (2016: \$1,282,154).

In addition, 20% of the net income from operations is distributed to the Manager on a quarterly basis (Note 9).

The Board of Directors of the Manager unanimously agreed to waive 50% of the distribution to which it was entitled for the fourth quarter of the year ended December 31, 2017. The amount waived was distributed to the unitholders. The total distribution paid to the Manager for the year was \$1,027,963 (2016: \$1,263,553).

Of the above amounts, \$772,583 (2016: \$601,720) remains in accounts payable and accrued liabilities.

Expenses

All organizational expenses and sales commissions or fees paid to registered dealers in connection with the offering will be paid by the Manager.

All expenses or outlays relating to the Trust from inception including, but not limited to, the Manager's Fee, the Trustee's Fee, offering expenses (other than organizational expenses and sales commissions on fees paid to registered dealers in connection with the offer and sale of units), taxes payable by the Trust, expenses related to Unitholders' meetings, brokerage, legal and other fees and disbursements relating to the implementation of transactions for Trust investments, if any, are paid by the Trust.

CAPITAL DIRECT I INCOME TRUST
Notes to Financial Statements
Year Ended December 31, 2017

12. CAPITAL MANAGEMENT

The Trust defines capital as loan payable and net assets attributable to unitholders. The Manager's objective when managing capital is to make prudent investments in mortgages so that it can continue to provide stable returns for its unitholders. The Trust achieves its investment objectives by monitoring the Trust's mortgage investment portfolio. Information on the net assets attributable to unitholders is described in Note 9.

The Trust's loan payable (Note 7) is subject to the following covenants as calculated in accordance with the credit facility agreement. In the event of a violation of the covenants, no redeemable trust units may be redeemed or repurchased.

1. To maintain a Cash Flow Coverage Ratio of not less than 2:1 in each quarter.
2. To maintain a Tangible Net Worth of not less than \$50,000,000 in each quarter.
3. To maintain a Debt to Tangible Net Worth Ratio not greater than 1:1 in each quarter.

As at December 31, 2017, the Trust was in compliance with the above covenants.

13. CONTINGENT LIABILITIES

From time to time the Trust may be subject to various lawsuits arising from investing in mortgages in which claims for monetary damages are asserted in the ordinary course of business. While any litigation involves an element of uncertainty, it is the opinion of the Manager that liabilities, if any, arising from such litigation will not have a material adverse effect on the Trust's financial condition, liquidity, or results of operations.

14. KEY MANAGEMENT COMPENSATION

The compensation of the senior management of the Manager is paid through the management fees paid to the Manager (Note 8).

CAPITAL DIRECT I INCOME TRUST
Notes to Financial Statements
Year Ended December 31, 2017

15. ANNUALIZED RATE OF RETURN

Class A Redeemable Units

	Net asset value	Weighted average net assets per quarter	Net income to be allocated to holders of redeemable units
First quarter - March 31, 2017	57,514,895	55,265,062	1,017,522
Second quarter - June 30, 2017	56,279,050	57,680,895	1,035,681
Third quarter - September 30, 2017	57,807,939	56,642,361	1,036,565
Fourth quarter - December 31, 2017	58,548,906	57,390,668	1,039,430
Year ended December 31, 2017	58,548,906	56,744,747	4,129,198

	Average annualized rate of return calculated quarterly	Compounded annual rate of return	Weighted average return weighted by net assets outstanding	Effective weighted average annual rate of return
First quarter - March 31, 2017	7.36 %		1.79 %	
Second quarter - June 30, 2017	7.18 %		1.83 %	
Third quarter - September 30, 2017	7.32 %		1.83 %	
Fourth quarter - December 31, 2017	7.25 %		1.83 %	
Year ended December 31, 2017	7.28 %	7.48 %	7.28 %	7.48 %

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Notes to Financial Statements
Year Ended December 31, 2017

15. ANNUALIZED RATE OF RETURN (continued)

Class C Redeemable Units				
	Net asset value	Weighted average net assets per quarter	Net income to be allocated to holders of redeemable units	
First quarter - March 31, 2017	15,035,596	13,971,580	259,278	
Second quarter - June 30, 2017	15,690,921	15,101,408	272,369	
Third quarter - September 30, 2017	16,942,399	16,011,694	294,834	
Fourth quarter - December 31, 2017	17,281,352	17,379,281	316,900	
Year ended December 31, 2017	17,281,352	15,615,991	1,143,381	

	Average annualized rate of return calculated quarterly	Compounded annual rate of return	Weighted average return weighted by net assets outstanding	Effective weighted average annual rate of return
First quarter - March 31, 2017	7.42 %		1.66 %	
Second quarter - June 30, 2017	7.21 %		1.74 %	
Third quarter - September 30, 2017	7.37 %		1.89 %	
Fourth quarter - December 31, 2017	7.29 %		2.03 %	
Year ended December 31, 2017	7.32 %	7.53 %	7.32 %	7.53 %

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CAPITAL DIRECT I INCOME TRUST
Notes to Financial Statements
Year Ended December 31, 2017

15. ANNUALIZED RATE OF RETURN (continued)

Class F Redeemable Units			
	Net asset value	Weighted average net assets per quarter	Net income to be allocated to unitholders
First quarter - March 31, 2017	46,372,937	41,247,248	866,896
Second quarter - June 30, 2017	49,430,465	47,775,571	978,659
Third quarter - September 30, 2017	51,899,117	49,795,696	1,037,563
Fourth quarter - December 31, 2017	52,941,494	53,062,317	1,095,969
Year ended December 31, 2017	52,941,494	47,970,208	3,979,087

	Average annualized rate of return calculated quarterly	Compounded annual rate of return	Weighted average return weighted by net assets outstanding	Effective weighted average annual rate of return
First quarter - March 31, 2017	8.41 %		1.81 %	
Second quarter - June 30, 2017	8.19 %		2.04 %	
Third quarter - September 30, 2017	8.33 %		2.16 %	
Fourth quarter - December 31, 2017	8.26 %		2.28 %	
Year ended December 31, 2017	8.30 %	8.56 %	8.29 %	8.56 %